

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Maine Consolidated School District No. 10

As of October 25, 2007



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@azauditor.gov

Amanda Winn
Barbara Tanner
Lisa Ashton

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 1, 2008

Governing Board
Maine Consolidated School District No. 10
P.O. Box 50010
Parks, AZ 86018-0010

Members of the Board:

In our December 22, 2006, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2005. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of October 25, 2007. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2006, audit reports and USFR Compliance Questionnaire, as well as other internal control deficiencies we were aware of at the time of our review. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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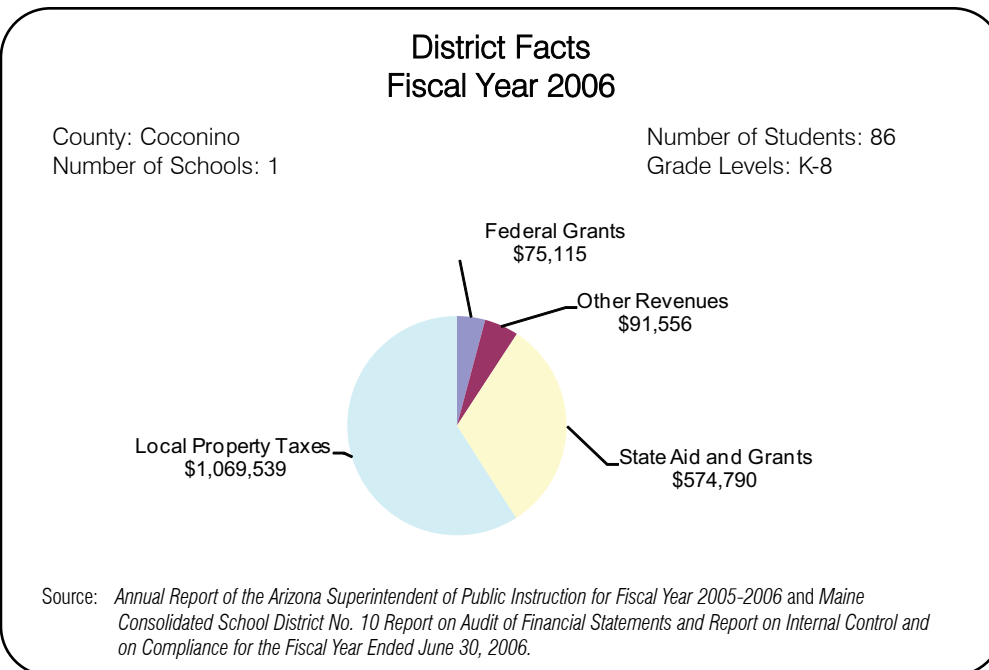
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INTRODUCTION

Maine Consolidated School District No. 10 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.8 million it received in fiscal year 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to safeguard its investment, effective stewardship requires the District to maintain accurate lists of these assets. However, the District's capital assets list did not always include all required information. Also, the capital assets list did not always include actual costs as many amounts on the list were estimated, costs recorded on the list did not always agree

with supporting documentation, and supporting documentation for recorded costs was not always retained. In addition, the District

The District lacked accountability over its investment in capital assets because it did not have complete and accurate capital assets and stewardship lists.

recorded several assets on its capital assets list as a single item described as "kitchen and equipment" and improperly included stewardship items and building improvements in this line item. Further, the District's stewardship list did not always include all required information, stewardship items on the District's premises were not always tagged, and items were not always in the location indicated on the list. Finally, the District did not prepare a reconciliation of capitalized acquisitions to capital expenditures at fiscal year-end.

Recommendations

The following procedures can help the District improve controls over its assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Maintain an accurate and complete capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more, and include all required information for each item on the list.
- Retain cost documentation, such as purchase orders, receiving reports, and vendor invoices, to support the information recorded on the capital assets list and verify that the cost recorded on the list agrees with supporting documentation. Capital assets should be recorded at actual historical cost. If the District is unable to determine actual costs, it may use estimated historical costs supported by vendor catalogs, price lists, appraisals, bond issue documents, and governing board meeting minutes.
- Ensure that capital asset equipment items are listed separately on the capital assets list and in the appropriate category with each item's individual cost recorded on the list.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

Instructions for documenting capital asset cost information are included on USFR pages VI-E-3 through 5.

- Maintain a stewardship list of all equipment items costing between \$1,000 and \$5,000. Include all required information for each item on the list.
- Affix a permanent tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify the asset by some other means, such as a serial number. Tag numbers should be prenumbered, numerically controlled, and issued sequentially.
- Prepare asset relocation forms when items are moved and use the forms to update the applicable list.
- Reconcile items added to the capital assets list to capital expenditures by fund at the end of each fiscal year. All differences should be investigated and resolved.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.

The District's controls over purchasing and expenditures should be improved

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow USFR guidelines as it did not always obtain oral and written price quotations for purchases that required them.

The District also spends public monies to purchase goods and services and has a fiduciary responsibility over student activities monies, so it is essential that the District follows proper procedures designed to help ensure that all expenditures are appropriate and adequately supported. However, the District did not always follow such procedures as purchase orders were not always prepared before the goods or services were ordered. Additionally, the District inappropriately purchased food for a district staff luncheon without documenting governing board approval that the expenditure served a public purpose and that its cost did not greatly exceed the benefit provided. Further, student activities disbursements were not always approved by or on behalf of the members of the student club, and student activities checks were not signed by a student activities treasurer appointed by the Governing Board.

The District may not have received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and expenditures, the District should:

- Determine whether to request oral or written price quotations or issue invitations for bids by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above \$5,000 for a similar group of items from one or more vendors.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and oral price quotations from at least three or more vendors for purchases estimated to cost between \$5,000 and \$15,000, and retain documentation of all quotations received. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Prepare and approve purchase orders before ordering goods and services.
- Ensure and document that public monies are not spent for the benefit of private individuals unless there is a public purpose served by the expenditure and the value is not far exceeded by the amount paid. The Governing Board should ensure that expenditures do not violate the gift of public monies clause in the Arizona Constitution, Article 9, §7.
- Ensure disbursements made from the student activities bank account are approved by the appropriate student club and documented in its meeting minutes.
- Ensure that student activities checks are signed by the Governing Board-appointed student activities treasurer and one other person authorized by the Governing Board.

USFR guidelines require:

- Written price quotations for purchases between \$15,000 and \$33,689.
- Oral price quotations for purchases between \$5,000 and \$15,000.

The District should strengthen controls over cash receipts

The District receives cash from various sources, including its extended day care and preschool programs. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited. These controls require that the District document amounts received and deposit cash receipts in a timely manner. However, the District

Poor cash controls left district monies unprotected and susceptible to loss, theft, or misuse.

did not have adequate controls over its cash receipts as the District's extended day care and preschool programs' monies were kept in an unlocked box in an unsecured location. Also, cash receipt forms were not prepared at the time that monies were received.

Recommendation

To strengthen controls over cash receipts, the District should ensure monies received are adequately safeguarded by securing them in a safe or locked cabinet and by preparing cash receipt forms immediately upon receipt of the monies.

The District should ensure food service inventory duties are adequately separated

The District uses financial resources to purchase food and food service supplies. Effective internal control policies and procedures over food service inventory helps to prevent theft, overstocking, spoilage, and obsolescence, and to provide for accurate financial reporting. However, the District did not adequately separate duties over its food service inventory. Specifically, the same employee ordered the goods, received the goods, and performed the physical inventory.

The District's food service inventory was not safeguarded as the same employee performed the ordering, receiving, and physical inventory functions.

Recommendation

To ensure adequate separation of food service inventory duties, the District should ensure that one employee does not perform all functions of the inventory cycle.

USFR §§VI-D and VI-G provide guidance on separation of duties for the inventory cycle.